

CELESTE

Funds Management

Celeste Australian Small Companies Fund

Monthly update 31 July 2012

Fund Performance

The Fund was up 0.3% in July, with its benchmark, the ASX Small Ordinaries Accumulation Index down 0.2 %.

A number of key global equity indices rose in July with the S&P 500 up 1.3%, the FTSE up 1.2%, the DAX up 5.6%, and the Hang Seng up 1.8%. The Shanghai Composite was down 5.5% and the Nikkei fell 3.5%.

In the past year the Fund is down 0.4%, net of all fees, compared to a 15.9% decline for the S&P/ASX Small Ordinaries Accumulation Index.

Since inception in May 1998 the Fund's return is 16.4% pa, against the Index's 5.1% pa.

Portfolio Commentary

Breville Group rose 9.1% in July and advised the ASX of a FY'12 profit some 5% above consensus, and up over 22% on underlying FY'11 earnings. This result is all the more noteworthy given the general malaise in global retail markets.

Nufarm rose 8.3% forecasting strong growth in underlying profit in a market update. Nufarm suggested that better weather conditions across most of its markets and an excellent performance from its nascent seeds business would result in a significantly improved profit result over last year.

GUD Holdings was one of the first companies to release its FY'12 result this year and was up 3.3% in July. Whilst the GUD result was slightly below expectations investors will receive a 35c ordinary dividend, and a 35c special dividend, on top of the 30c interim. We remain attracted to GUD's valuation, its defensive traits, robust cashflows & its iconic brand portfolio.

RCR Tomlinson fell 6.7%, despite advising the market of a FY'12 result some 40% above last year's figure. The July update from RCR also noted a strong order backlog and a period end balance sheet in a healthy net cash position.

Fleetwood Corporation won an innovative tender with the WA Dept. of Housing in July to construct 293 homes in South Hedland WA and manage the asset for 15 years. Fleetwood rose 11.5% during the month.

Portfolio Top 5 Holdings

Stock	% of Fund
1 BREVILLE GROUP	5.4
2 TRANSPACIFIC INDUSTRIES GROUP	4.6
3 SKILLED GROUP	4.6
4 NUFARM	4.3
5 CARSALES.COM	4.1

Monthly Commentary

Equity investors around the world adopted a defensive stance during July. With global economic growth decelerating, and the Eurozone crisis deepening, investors gravitated towards defensive counters with abundant yield support. In the Australian equity market the risk moderation mindset of July is graphically illustrated by the divergence in performance between Industrial & Resource indices. In July the S&P/ASX 200 appreciated by 4.3%, whilst the S&P/ASX 200 Industrials Index rose 5.9% and the S&P/ASX200 Resource Index fell 0.5%.

Global growth was a concern for central bankers around the world in July who assuaged their fears with bouts of further monetary easing. In Australia the Reserve Bank took breath, kept rates on hold, and waited to see what their 75bp of cuts in May and June would deliver.

US Q2 GDP data whilst a positive 1.5%, was lacklustre. The broader US economic picture appears fragile with durable goods orders poor, unemployment stubbornly high and business investment intentions weakening. With all arms of the US Government (Federal, State, and Local) cost cutting, and Bush tax cuts to end, momentum within the US economy is poised to decline further in coming months.

Eurozone concerns were forgotten towards month end as ECB President Mario Draghi reminded all that, "...the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough...". Whilst the Draghi comments need be acknowledged and commended, a degree of caution is warranted as investors await evidence that ECB actions are the equal of its rhetoric.

We continue to see attractive investment opportunities in the Australian Small cap sector. Valuations for many small cap companies are increasingly compelling with attractive yields on offer and little growth expectation embodied in current pricing. We look forward to the FY '12 reporting season and the opportunities it will present for process application and return generation.

Performance Statistics (Net of fees)

	Celeste Australian Small Co. Fund	ASX Small Ord Acc Index	Performance	ASX Small Ind Acc Index	ASX Small Res Acc Index
1 month %	+0.3	-0.2	+0.5	+1.7	-4.3
3 month %	-7.7	-14.7	+7.0	-7.1	-28.4
1 year %	-0.4	-15.9	+15.5	+0.7	-38.9
3 years % pa	+12.1	+0.4	+11.7	+5.5	-8.3
5 years % pa	-0.9	-8.7	+7.8	-8.6	-7.9
10 years % pa	+12.9	+7.0	+5.9	+5.6	+13.3

Past performance is not necessarily indicative of future returns.

Fund at a Glance

Fund Information

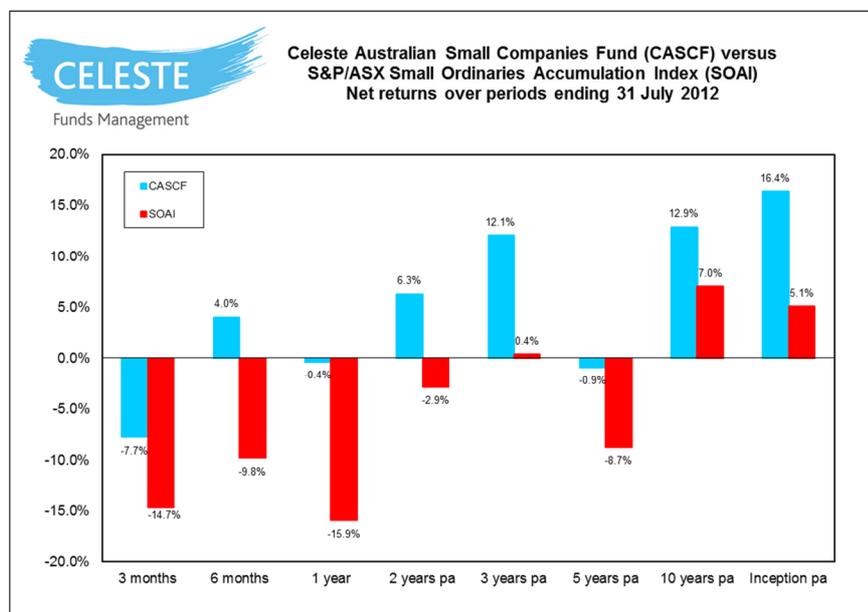
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 31.07.2012	\$2.8582
Unit price (application) as at 31.07.2012	\$2.8812
Fund Size as at 31.07.2012	\$138m
Minimum investment	\$25,000
Minimum additional investment	\$1,000
Minimum balance	\$15,000
Minimum investment: monthly investment plan	\$500
Redemption will generally be available in	7 days
Distributions	30 June and 31 December
Entry fee*	0%
Exit fee*	0%
Buy/Sell differential*	0.40%
Management fee*	0.95%
Performance fee**	20% of return above benchmark
OGFM***	0.95% p.a.

* These fees and charges apply for the duration of the Product Disclosure Statement (PDS) and are inclusive of the Goods and Services Tax.

** A fee charged on performance of the investments of the Fund above the nominated benchmark performance. The benchmark is the S&P/ASX Small Ordinaries Accumulation Index.

*** The Ongoing Fee Measure (OGFM) is the total amount of the ongoing Manager and Custodian Fees and aggregate Fund expenses in a Financial Year (but excluding the performance fee), divided by the average Net Asset Value of the Fund for the Financial Year expressed as a percentage. Transactional costs, such as bank charges, brokerage and stamp duties are not included in the ratio. The OGFM for the Fund will not exceed 0.95% p.a. for the duration of the PDS.

Fund Returns



Distribution History

Total distribution year ended	Cents Per Unit	Annual Yield %*
June 99	3.07	2.9
June 00	17.37	11.3
June 01	13.88	7.8
June 02	27.17	14.2
June 03	7.01	3.9
June 04	21.71	11.2
June 05	49.48	19.5
June 06	18.88	7.3
June 07	34.32	12.3
June 08	38.82	9.9
June 09	10.06	4.2
June 10	18.70	8.9
June 11	11.89	4.6
June 12	4.07	1.4

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*CPU/unit price at beginning of period.

This report is intended to provide only general securities advice. Celeste Funds Management Limited does not purport to make any recommendation that any securities transaction is appropriate to your particular investment objectives, financial situation or particular needs. Prior to making any investment decision, you should assess, or seek advice from your adviser, on whether any relevant part of this report is appropriate to your individual circumstances. Celeste Funds Management Limited believes that the information contained in this report has been obtained from sources that are accurate, but it has not checked or verified that information. Except to the extent that liability cannot be excluded, Celeste Funds Management Limited accepts no liability for any losses or damage caused by any error in or omission from this report

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